



**CPI GROUP LIMITED
ANNUAL GENERAL MEETING
24 NOVEMBER 2010**

MEDIA RELEASE

In our statement to shareholders in July and as detailed in the 2010 Annual Report we advised the market that trading conditions had been very patchy and difficult throughout the year and were continuing. Unfortunately, rather than an improvement, we have seen market conditions deteriorate further. This particularly took effect from the time the federal election was first called.

In addition to lacklustre demand, the year to date performance has been affected by a number of other factors.

- The short term price spike that followed the interruption to the supply of market pulp caused by the Chilean earthquake.
- This price spike was exacerbated by the rapid decline and then recovery in the value of the Australian dollar in May of this year.

The combination of these two effects resulted in the cost of inventory that arrived in the April to July period being significantly higher than it had been previously. As both effects were short lived, and the replacement prices fell back to earlier levels after a few months, it proved impossible to recover these higher costs in the market. This has reduced margins considerably. This is illustrated by the fact that even though fine paper volumes in the merchant businesses had grown by 5.5% in the four months to 31 October 2010, Gross Profit actually fell by 4.7%

The margin decline has highlighted the need for the completion of our previously announced warehouse rationalisation strategy. This will take place over the next fourteen months (as leases expire) and together with other planned cost reductions, should yield savings of approximately \$6 million per annum. In the four months to 31 October 2010 the Group has recorded a small underlying EBITDA profit of approximately \$650,000, well below the equivalent period last year.

Working Capital

The Group continues to maintain strong control over working capital, with net debt remaining at a little over \$35 million. We intend to maintain this strong focus on working capital.

Other Factors

As indicated in our recent communication, 2010 has been one of the worst years on record for failures among the customer base. Notwithstanding this fact, the Group has been able to successfully renew its credit insurance facility providing significant comfort around its receivables. In relation to Quality Group, we are continuing to seek information from the first mortgagee in order to be able to finally determine our position. We reiterate our advice of July that should it be determined that the position of the first mortgagee is different from that advised by the mortgagor, significant additional provisioning could be required up to a possible maximum of \$2 million.

Outlook

The market remains difficult and patchy with little evidence of a strong economic recovery. Given this outlook, the Group intends to maintain a focus on working capital control and to work as expeditiously as possible on its cost reduction program while maintaining its market position with the Group's client base.